FARMLINE

United States Department of Agriculture

Economic Research Service

Volume VIII
Number 9
September 1987

Export Programs Boost U.S. Sales

A Critique of Parity page 8

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FARMLINE is published 11 times a year by USDA's Economic Research Service. Send questions, requests, and editorial comments to *FARMLINE*, Room 228-USDA, 1301 New York Avenue N.W., Washington, DC 20005-4789.

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PERSPECTIVES

THE EUROPEAN COMMUNITY is both a powerful rival and a valued customer of the United States, in agricultural trade. The two economic giants have much in common, including problems of farm sector overproduction, crop surpluses, and high farm program costs. Subsidies and other policy measures are used by both sides to protect their agricultural industries, with economic studies clearly showing that the EC is the more restrictive.

Is it possible for two such rivals to enjoy the benefits of their relationships but escape the problems? It won't be easy, but that is the objective of the current round of multilateral trade talks.

An analysis of this competitive situation, and a detailed comparison of EC and U.S. agriculture, is provided in a recent report by economists Mark Newman, Tom Fulton, and Lewrene Glaser of USDA's Economic Research Service. One purpose of the report is to help policymakers gain a better understanding of the trade issues involved.

An economic association of 12 nations, the EC added its two newest members, Spain and Portugal, last year. The EC was founded with 6 members in 1957, expanded to 9 in 1973, and to 10 in 1981. With just one-fifth as much land and one-fourth as much tillable acreage as the United States, the EC nevertheless had total agricultural production equal to 96% of U.S. output in a recent 5-year period (1980-84).

The EC is the Number 1 market for U.S. agricultural exports. This country also buys a large amount of EC farm commodities. In trading with the United States last year, the EC purchased $6.6 billion worth of farm products and sold $4.1 billion worth. Those totals represented 25% of all U.S. agricultural exports and 15% of EC sales. The U.S. trade surplus with the EC has fallen substantially, however, from the peak of $7.5 billion in 1980.

The United States and the EC each account for about 18% of total world agricultural trade. With the addition of its two newest members in 1986, the EC, for the first time, actually totaled more farm exports, by value, than the United States. But preliminary figures for 1987 indicate that this country's export business is again increasing.

High-value or value-added commodities make up a larger portion of EC farm exports than of U.S. exports. The top categories of EC agricultural exports are, in order by value, beverages and tobacco, grains, animal products, milk and eggs, sugar and spices, fruits and vegetables, and oils and fats. The major U.S. exports to the EC are, in order, oilseeds and products, grains and feeds, animals and products, tobacco, nuts, fruits, vegetables, and cotton.

Other differences are obvious in a comparison of EC and U.S. agriculture. American farms are more than 10 times as large, averaging 438 acres to 42. The EC has 9.8 million farms, while the United States has about 2.2 million. Agriculture in the 12 current EC members employed 11 million people, 8.9% of the workforce, in 1984. Comparable U.S. figures, for 1985, were 3.2 million and 3%. Agriculture's share of the total value of goods and services produced in 1984 was 3.3% in the EC and 2.5% in the United States.

The EC's Common Agricultural Policy (CAP) has been an important factor in the increase in export sales. The CAP was set up to help boost food production and decrease dependence on imports, Newman says. "The EC has shifted from a net importer of most agricultural commodities to a net exporter of grains, dairy products, sugar, and beef" since the CAP was established in the early 1960's, he notes.

An analysis of U.S. and EC farm programs for 1982-84 shows that "overall protection of agricultural producers was higher in the EC but was also important in the United States," the economists say in their report.

A common bond for U.S. and EC agriculture is a concern by policymakers and others about large government farm program costs. Estimates for 1987 are $25.3 billion for the United States and $26.2 billion for the EC. In 1980-84, the United States averaged $8.9 billion annually and the EC $14.4 billion.

FARMLINE

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FEATURES

Export Programs Boost Sales of Key Commodities *by Doug Martinez* 4

During the recent years of decreased demand for U.S. farm products in world markets, government export programs have helped take up the slack in sales. Credit programs, bonuses to exporters, and humanitarian assistance are included. How successful have these efforts been? The evidence is mixed.

Parity Concept: A Flawed Policy Tool? *by Eric Van Chantfort* 8

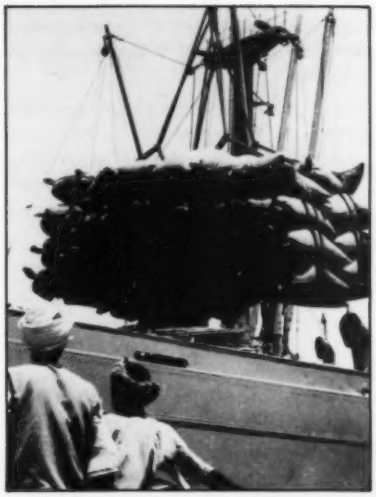
The use of "parity" in establishing farm price support levels can result in unfairness and inequity—the opposite of the intended effect—many economists believe. Despite its long history and appealing simplicity, the parity concept has built-in problems, because times have changed and parity fails to accurately measure the economic status of farmers.

Peanut Program One Example of Mandatory Controls *by Jack Harrison* 12

The U.S. peanut program has featured mandatory production controls for many years. It is seen as an example of how such controls might work for other crops as well. Peanuts are in a unique situation, but insight can be gained from an examination of how the program works.

Even Mideast Trouble Spots Offer Export Opportunities *by Fawzi Taha* 16

Agricultural trade continues, and often thrives, even in world trouble spots such as the Middle East. In this article, economist Fawzi Taha looks at eight small to midsize nations in that region, from the standpoint of the potential for increased U.S. exports. The problems include political differences, unfamiliar customs and tastes, and communication problems.



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Export Programs Boost Sales of Key Commodities

When world demand for American farm products is booming, U.S. food aid, export credit, and other government export programs tend to receive relatively little attention.

But when demand falters, as it has in the last 5 years, interest in the programs grows, along with their importance. They're called upon to help make up for the slack sales.

The question then is: How effectively do the programs meet that challenge?

"The evidence is mixed," says economist Mark Smith of USDA's Economic Research Service. "The commercial export programs have helped shore up the U.S. market share in several countries, but they may not be enough to offset other factors that have eroded U.S. trade."

And even their successes have a price.

The relatively new Export Enhancement Program (EEP) has boosted exports of selected commodities to targeted countries. However, it has also generated controversy, particularly over the decision earlier this year to sell 4 million tons of wheat to the Soviet Union under highly favorable terms.

Smith has examined the role these programs play in agricultural exports and whether these methods are effective in the face of intense competition. Certainly, he says, such incentives or inducements have buffered falling farm export sales in the 1980's. Four of the top five importers of American wheat in 1986, for example, were major participants in food aid, credit, and other U.S. export programs.

On the other hand, he insists, it would be unrealistic to expect export programs alone to counter all the economic forces that have weakened world demand and damaged U.S. competitiveness in recent years. We don't know how much more exports might have fallen without the programs, say the analysts, but we do know that the volume of U.S. farm exports dropped 53 million metric tons, or 32 percent, between fiscal years 1981 and 1986.

A PIK for Exporters

The EEP is one of the latest entries in the effort to boost or buttress U.S. farm exports.

"Commercial export programs have helped shore up the U.S. market share in several countries."

Its appeal is a lower price for targeted purchasers of specific U.S. commodities, and it was designed, in part, as a response to the export subsidies of some of our competitors, like the European Community.

In the early 1980's, some U.S. exports were higher priced than those of our competitors, says Smith. And that cannot be blamed entirely on foreign subsidies.

"High loan rates in the Agriculture and Food Act of 1981 contributed to high prices for U.S. commodities in relation to those of competing suppliers," he says.

However, the current farm bill—the Food Security Act of 1985—put in place a system of gradually lower loan rates for key farm commodities. That has already begun to boost American competitiveness by bringing prices more in line with market levels.

Under the EEP, the U.S. Commodity Credit Corporation (CCC) awards bonuses to American exporters in the form of certificates redeemable for CCC-owned commodities. The bonus commodities enable exporters to sell specified farm products to targeted countries at prices below those of the U.S. market.

Through 1988, the program is to provide at least $1 billion in commodities. Since the start of the program in May 1985, EEP sales have included close to 18 million tons of wheat and wheat products, more than 3 million tons of barley, and smaller quantities of several other commodities. The 1986 bonus averaged about $25 per ton for wheat and just under $80 per ton for wheat flour.

Is It Working?

"Determining the effectiveness of the Export Enhancement Program is difficult," says Smith, "partly because this program is only about 2 years old. A simple before-and-after analysis may be all that is possible, but we must recognize that the EEP may not be solely responsible for the changes."

Smith looked at the before-and-after U.S. market share of wheat and flour exports to EEP-targeted countries. "The data suggest that the U.S. share has increased slightly in those countries, as a whole."

Other USDA analysts found that U.S. wheat shipments to North Africa and the Middle East increased sharply after the program began, says Smith. EC exports declined initially, but then recovered, although remaining below U.S. sales.

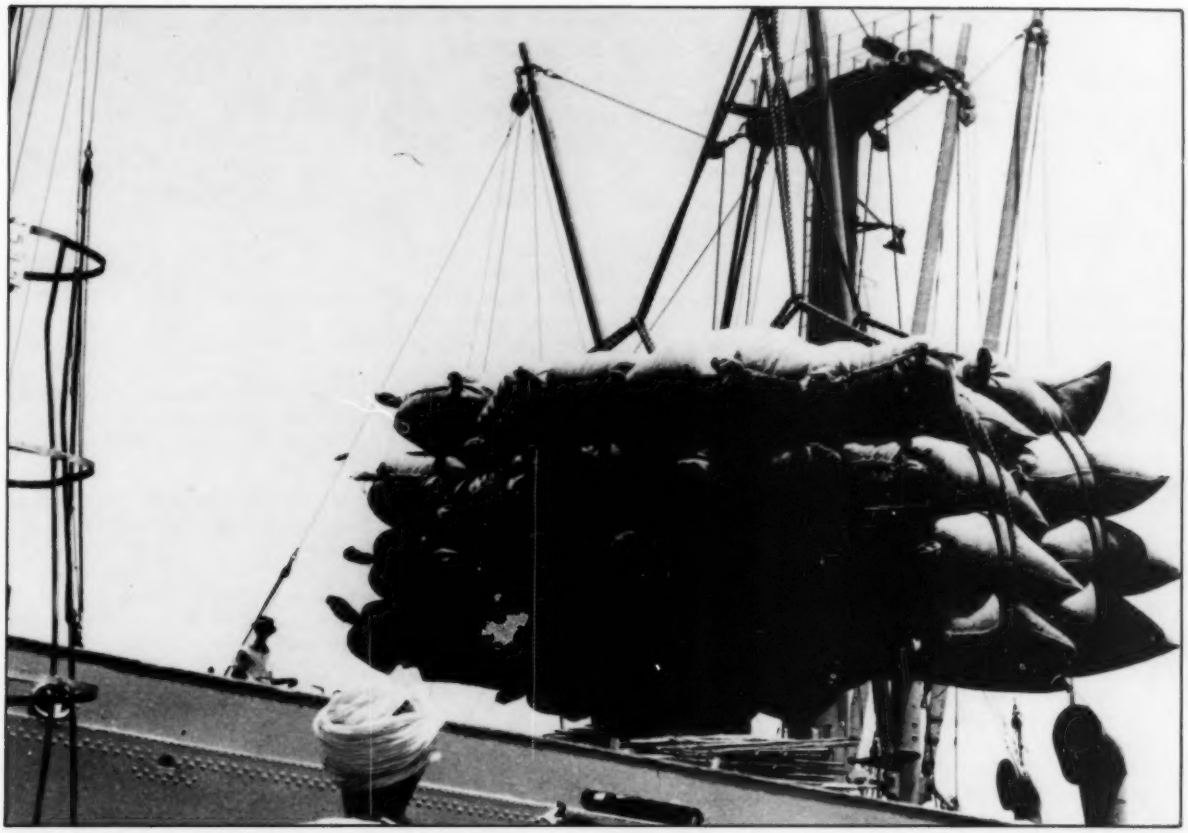
Smith says that USDA analysts have concluded that without the EEP pricing arrangements, U.S. shipments to those areas would have remained at the 1984/85 season levels, or lower, and that EC shipments would have been much larger.

Another major means to increase exports is to ease the provision of the commercial

More Than 20 Million Tons of U.S. Farm Commodities Were Exported in Fiscal 1986 Under U.S. Export Programs

	Wheat and flour[1]	Vegetable oil	Rice	Cotton	Feed grains
	thousand metric tons				
EEP	6,571	0	23	0	946
CCC credit	8,259	373	477	133	3,918
Food aid	4,409	193	313	5	256

[1]Flour is converted to its wheat equivalent, with 1.37 metric tons of wheat equal to 1 ton of flour.



U.S. wheat shipments to North Africa and the Middle East increased sharply after the Export Enhancement Program began about 2 years ago.

credit that some purchasers need to buy U.S. commodities.

"Purchasers in some countries cannot afford imports even at discounted prices. In these cases, an exporter might make credit available to make the purchase more affordable and increase sales," Smith says. Since 1981, the CCC's Export Credit Guarantee Program (GSM-102) has guaranteed repayment of private, short-term credit (of up to 3 years) to facilitate agricultural exports.

"CCC credit programs have helped maintain or expand U.S. market shares in some countries," Smith notes.

To analyze the role of CCC commercial credit programs in holding or expanding U.S. farm export shares, Smith paid special attention to U.S. wheat and flour sales.

He examined several countries that first participated in CCC credit or credit guarantee programs in 1983 and continued to participate in them at least through 1985. He then compared the U.S. share of commercial wheat and flour trade for those study countries with the U.S. share of overall world commercial wheat and flour trade. The period of study in both cases covered the July-June trade years 1980 to 1984.

"The United States accounted for almost 50 percent of commercial world wheat and flour exports in 1980. That share rose in 1981 as U.S. exports of wheat and flour peaked," Smith says. "Between 1981 and 1984, the dollar appreciated by almost 25 percent, competition intensified worldwide, and the U.S. share declined from 50 percent to about 33 percent of world trade."

Smith goes on to say that, in the study countries, the United States held 40 percent of the commercial wheat trade in trade year 1980. "That figure rose in 1981 because Egypt increased U.S. pu chases partly for political reasons. In 1982, about when the CCC credit and credit guarantees were extended, the United States captured almost 55 percent of the market to those countries. But by 1984 the share had fallen to 40 percent, about 5 percentage points above the U.S. share of the entire world market."

No Guarantee of Markets

Although credit has helped the United States retain customers, lower prices can lure them away.

"For example, Korea has long received CCC credit and credit guarantees," says Smith. "The United States provided 100 percent of Korea's commercial wheat and flour imports in trade years 1980-82, but by 1984 had lost about 30 percent of that market, mostly to Australia. The United States supplied 99 percent of Peru's commercial wheat and flour imports in 1980-81, but fell below 45 percent in 1984, losing sales mostly to Argentina. This shows the difficulty credit programs have in the face of stiff price competition."

As the largest U.S. agricultural export program, GSM-102 accounted for 1986 exports of about $880 million of wheat, nearly $375 million of corn, about $225 million of soybeans, about $175 million of cotton, more than $150 million of rice, and other products. Major purchasers under this program in fiscal 1986 were Mexico, Korea, Iraq, and Egypt.

Smith says the new Intermediate Credit Guarantee Program (GSM-103) is similar to GSM-102 except that it backs private credit extended for 3 to 10 years. GSM-103's 1986 allocations were mostly for breeding livestock, but also included protein meals, feed grains, and oilseeds.

Such programs are of no help, however, to nations that need food but can neither pay cash nor obtain commercial credit.

That's where the "Food for Peace" program, also known as Public Law 480, comes in. Established in 1954, this program is the main distribution means for U.S. food aid to developing countries.

"P.L. 480 goals," says Smith, "are to expand international trade, develop and expand export markets for U.S. agricultural commodities, combat hunger and malnutrition and encourage economic development in developing countries, and promote U.S. foreign policy."

In 1986, Smith notes, "P.L. 480 exports included about $450 million of wheat, $110 million of flour, $100 million of soybean oil, and $75 million each of rice and bulgur wheat."

P.L. 480 is divided into three sections, or titles. Under Title I, the United States provides long-term concessional credit at low interest rates and with repayment periods of up to 40 years for specific commodities which the recipient government sells in its domestic markets. (The Food Security Act of 1985 also authorizes cash sales in the recipient's local currency.)

Title II is a donation program through which U.S. commodities are distributed by private voluntary organizations, the World Food Program, and recipient governments. These donations are generally targeted to specific groups in the recipient countries.

The third part of P.L. 480 is the "Food for Development" program, which provides U.S. farm commodities under long-term credit provisions similar to those of Title I. But the debt incurred here by developing countries can be forgiven, if the recipient government achieves certain agreed-upon development goals.

Further food aid is provided under section 416 of the Agricultural Act of 1949, as amended, which authorizes the donation of surplus CCC-owned commodities.

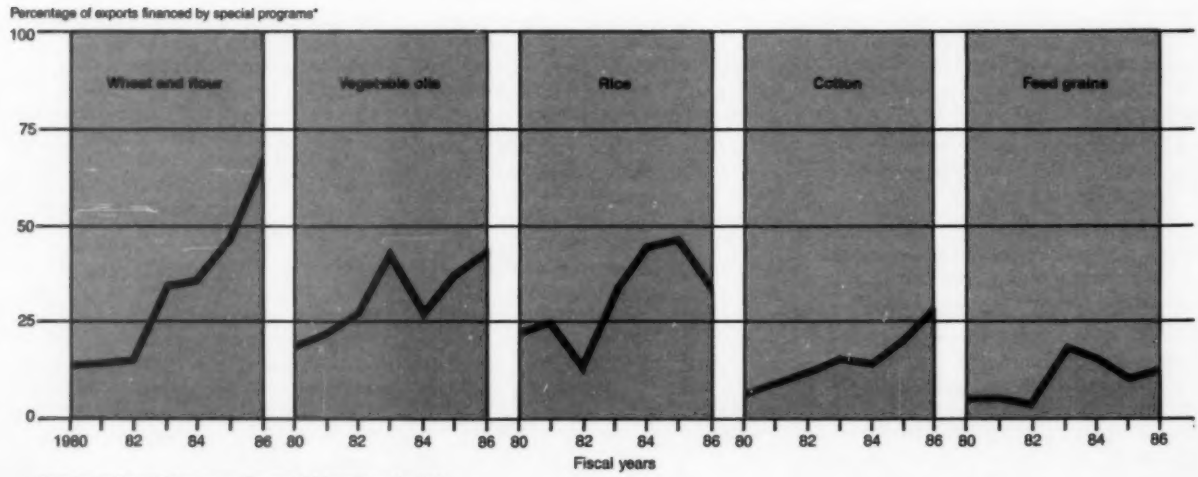
"Past donations under section 416 have mostly consisted of dairy stocks," says Smith, "but the Food Security Act of 1985 amended the program to include all edible commodities held by the CCC. At the end of last September, USDA officials determined that 500,000 tons of grain and oilseeds, and 150,000 tons of dairy stocks would be available in 1987."

Moreover, under the new "Food for Progress" program, commodities may be distributed through section 416, Title I of P.L. 480, or both, to help recipient countries achieve specific agricultural policy reforms. "Madagascar and Guinea received rice under this program last year."

The United States has consistently exceeded its pledge to the Food Aid Convention, whose members have agreed to provide a total of about 7.5 million tons of cereal aid each year. The U.S. share is 60 percent, or 4.47 million tons. □

[Based primarily on information provided by economist Mark Smith of the Commodity Economics Division, Economic Research Service.]

U.S. Farm Export Programs Have Been Crucial to Wheat and Vegetable Oil Exports



*Includes the Export Enhancement Program, CCC credit, and food aid.

Much Wheat Trade Is Through Export Programs

Farm export programs accounted for almost a fifth of the total value of U.S. agricultural exports in fiscal 1986.

But such programs offering reduced prices, credit guarantees, or food aid were even more critical to exports of key U.S. farm products.

More than half of the U.S. exports of wheat and flour, and nearly half of the vegetable oil exports, involved these programs. Two other major commodities—rice and cotton—were in the 25 to 35 percent range.

Here's how farm export programs figure in the marketing of major commodities:

• *Wheat and flour.* "The share of total wheat and flour exports under CCC commercial export and government food aid programs is increasing," says ERS economist Mark Smith. "In 1986, those programs probably accounted for more than half of total exports."

Smith says the share of exports under CCC credit programs significantly increased in fiscal 1983 when the GSM-102 program was expanded and the Blended Credit Program (which combined guaranteed commercial credit and interest-free government credit) was introduced.

"The Export Enhancement Program probably accounted for about 20 percent of the 1986 exports," he adds, noting that some of these shipments were made in conjunction with the GSM-102 credit guarantee program.

Egypt was the top P.L. 480 wheat and flour recipient in fiscal 1986, and Egypt and Korea were top wheat destinations under GSM-102. "Thus, Egypt and Korea ranked behind only Japan as our most important wheat and flour export markets in 1986."

• *Vegetable oils.* "Close to half of total 1986 vegetable oil exports involved CCC commercial export credit and government food aid programs," says Smith. "Falling total exports of vegetable oils have generally increased food aid's share of exports."

CCC credit programs have held at about 10 percent of vegetable oil exports since fiscal 1980, except for 1983—when Mexico and Yugoslavia made large purchases—and 1986, when Mexico made another large purchase.

In 1986, Pakistan and Mexico were the top two importers of U.S. vegetable oil. They were also the top two destinations of vegetable oil under GSM-102, and Pakistan was the fourth largest recipient of vegetable oil under P.L. 480.

• *Rice.* The share of total rice exports under CCC commercial export and government aid programs peaked in 1985, then fell to about 35 percent in 1986, Smith notes.

"Since 1981, food aid exports had generally risen through 1985. Preliminary data show a drop in 1986," he says. "The share made up of CCC credit programs has risen substantially, mostly because of increased Iraqi purchases under the program."

Iraq was the chief destination of rice under the GSM-102 program in 1986, and was also the second largest U.S. export market for rice. Guinea was the major P.L. 480 rice recipient that year. An EEP sale to Jordan probably made up about 1 percent of total rice exports in 1986.

• *Cotton.* "CCC commercial export credit programs and government food aid programs have generally been less important for cotton exports," says Smith. "P.L. 480 cotton exports have been less than 1 percent of the total for the last several years, although CCC credit program exports have generally increased since 1980 in both actual weights and in relation to overall cotton exports."

In 1986, a sharp drop in total exports exceeded the decline in CCC credit program exports, resulting in a substantial increase in the CCC credit program share. Korea was the chief destination of GSM-102 cotton and was the second largest market overall in 1986. Zaire received the most cotton under P.L. 480 in 1986.

• *Feed grains.* Compared with other commodities, feed grains are relatively less important in the CCC commercial export credit and government food aid programs.

"However, the food aid share increased during the recent African famine as total exports remained stable," says Smith. "And CCC credit program exports jumped sharply from 1983 to 1984 because of large purchases by Mexico."

EEP sales to Saudi Arabia and Israel comprised very little of total 1986 exports. Mexico, Portugal, and Egypt were the chief destinations of feed grains under the CCC credit guarantee program in 1986, while Jamaica and African countries were top P.L. 480 recipients. Smith says Mexico was the fourth largest feed grain market behind Japan, the USSR, and Taiwan.

Parity Concept: A Flawed Policy Tool?

Economists have a habit of challenging our most cherished assumptions and revealing that things are not always as they appear. Where the rest of us see an attractive bargain, for example, the economist may uncover a price war and, perhaps, the threat of market monopoly.

In the tradition of his profession, economist Lloyd Teigen of USDA's Economic Research Service is offering just such a message about one of the more popular and enduring concepts in agriculture. His subject is parity—more precisely, the use of the current parity price formula to set federal farm supports.

His message is basically this: There is no equity, no fairness, no parity in parity prices.

From all appearances, the parity price concept has a lot going for it. It has a long history, an appealing simplicity, and an underlying goal of fairness and equality between the farm and nonfarm sectors.

According to Teigen, the appearances are deceiving. The parity price idea, he says, relies on a flawed and outdated formula. It would increase the income disparities within the farm community, it would not ensure parity between farm and nonfarm incomes, and it would bring higher farm prices only at a substantial cost to agriculture's competitiveness, efficiency, and flexibility.

Teigen admits that his is not a message likely to win the hearts of farmers, or those who represent them. Instead, he claims, this is a message directed to the mind. Like a great many of his colleagues, past and present, he would like to correct the faulty economics in the parity price calculations, or put the entire issue to rest, once and for all.

Fairness Is Not the Issue

The parity concept has been around at least since 1922. It first entered farm legislation with the Agricultural Adjustment Act of 1933. And it wasn't long before several of the shortcomings of parity prices were noticed.

In fact, by 1946 economist Geoffrey Shepherd reported: "There is widespread agreement among agricultural economists that parity prices are not good bases for agricultural price and income controls." He went on to describe how parity prices freeze price relationships into out-of-date patterns, how parity fails to accurately measure the economic status of farmers, and how it ignores quantities produced and costs of production.

According to Teigen, there is no equity, no fairness, no parity in parity prices.

Despite some changes in parity calculations, these criticisms, and others, are valid today, Teigen contends. Yet parity survives to a limited extent in current farm programs and, more importantly, as an integral part of the "permanent" farm legislation of the 1940's. Although suspended by a succession of "temporary" farm bills, the permanent laws remain on the books ready to be reactivated each time the temporary legislation expires. (The 1985 farm bill expires in 1990.)

What is this concept that has endured decades of criticism and is still embraced by large segments of agriculture?

At its most basic level, it means economic equality—fair treatment—for the farm sector. But it is not the fairness concept that generates controversy. Parity's simplicity conceals a much greater complexity when the concept is turned into a mechanism for determining the appropriate level for farm prices.

To understand parity, "you have to understand that it includes both a price concept and an income measure," says Teigen.

"Parity income is a comparison of the income of farm families with that of nonfarm families. It's achieved when farm families attain the same living standard as nonfarm families," he explains. While there are questions about what government's role should be in maintaining a general parity in living standards and how to measure those standards, the disputes over parity have not, by and large, revolved around income parity. The reason is that parity prices were selected as the primary farm program instrument for achieving and maintaining parity between the farm and nonfarm sectors.

A Primer on Parity Prices

A full explanation of parity prices would involve USDA's index of prices received by farmers, the index of prices paid by farmers (the so-called parity index), the ratio between the two indexes, current market prices, adjusted base prices using 10-year averages, and comparisons with 1910-14. It gets complicated.

However, leaving aside the arithmetic (which is dictated by law) the idea is relatively simple. It converts the notion of parity in living standards between farmers and nonfarmers into another measure altogether—a measure of how the relationship in prices, or purchasing power, has changed since 1910-14 between the goods farmers sell and the goods they buy.

"A parity price," says Teigen, "is intended to convey to a unit of a commodity, such as a bushel of wheat or a pound of poultry, the same purchasing power that it had in the 1910-14 base period." USDA calculates parity prices for more than 100 commodities.

The magic of 1910-14 is this: The 1920's and early 1930's were two of the worst decades ever for U.S. farmers. Caught in a prolonged and deepening crisis, they soon came to view the relatively prosperous period just before World War I as the "golden age of agriculture." It had another advantage in that the data necessary for parity calculations didn't exist for earlier periods. Thus, 1910-14 gradually became the standard for determining whether the farm sector was receiving its "fair share" of the American economic pie.

This past April, market prices for wheat were averaging about 39 percent of parity, corn was at 31 percent, soybeans at 41 percent, beef cattle at 61 percent, and hogs at 60 percent. In other words, each of these products has lost value since 1910-14 in terms of the goods and services it would purchase per bushel or pound. There were

a few exceptions to the below-parity prices—Florida limes, for instance, were selling at 192 percent of parity.

The law also requires that USDA calculate a parity ratio for the farm sector as a whole. This, too, is no more than a comparison of prices, with 100 representing full parity. A parity ratio of 50, then, purports to show that the farm sector overall has lost half the purchasing power it had in 1910-14. In April, the actual parity ratio was 52 (58 if one adjusts for payments received by farmers under commodity support and land diversion programs).

The idea that one number can characterize the precise standing of agriculture has considerable appeal, and staying power. But, again, it all goes back 75 years to a time that lives more in history than in current memory. To most economists, it makes no sense to try to preserve or return to conditions so far removed from modern agriculture or from any present-day comparison of living standards between the farm and nonfarm sectors.

Moreover, says Teigen, the flaws in the parity calculations go much deeper than the arbitrariness and remoteness of the parity base period.

A Fundamental Flaw

Perhaps the most stinging indictment of a concept based on fairness or equality is evidence that its effect would be quite the reverse. And that's exactly the case with parity prices, Teigen found.

In contemporary agriculture, different size farms benefit to dramatically different degrees from higher prices for farm commodities, he explains. An effort to mandate higher farm incomes by supporting prices at some specified level of parity would involve the government in an action that would increase the income disparities throughout the farm sector.

It would be an instance of good intentions gone awry, and it's a problem, he insists, that's inherent in parity-based prices, even if prices are supported at well below 100 percent of parity.

Citing one example, he points to farms with annual sales of $10,000-$19,999. In 1983, the families running these farms had incomes (farm and off-farm) that averaged more than $6,000 below the U.S. median family income of about $25,000.

Using a parity price policy to provide these farms with incomes matching the U.S. median would have taken a farm price increase of around 36 percent (bringing farm prices to roughly 70 percent of parity). The trouble is that a 36-percent price increase (like any other increase) would have a very uneven impact on the incomes of different farms. It would not be enough to provide the U.S. median income to most farms with sales of less than $10,000.

Meanwhile, the majority of farms in the upper sales classes are already earning incomes well above the U.S. average. Among the largest farms—those that sold anywhere from a half-million to several million dollars worth of farm products—the average 1983 income was nearly 24 times that of the U.S. median. And the same 36-percent price increase, which would give a few thousand extra dollars to small farms, would add about $650,000, on average, to the incomes of these large farms.

Higher farm prices benefit the larger farms disproportionately for two reasons: higher sales volume, and much greater overall dependence on income derived from the farm.

"Parity prices do not provide parity incomes for all farmers, and raising farm prices enough to provide parity incomes for the smallest farms would give windfall incomes to the large farms," Teigen says.

Keeping Up Through Technology

Teigen's critique of a parity-based price support policy doesn't end there. Even in a much narrower context, parity prices are flawed, he claims. In fact, they fail to do the very thing they seem designed to do—provide a system to maintain the farmer's purchasing power at 1910-14 levels.

In this case, though, it's not the farmer who

The Price Changes Needed to Achieve Income Parity Vary Dramatically by Sales Class

A Price Increase Bringing Income Parity to Small Farms Would Yield a Windfall in Extra Income for Large Farms

	Price change needed to achieve income parity[1]	Added income generated by a price increase of 36%[2]
Farm sales class		
0 to $2,499	+202%	$586
$2,500-$4,999	+110%	$1,657
$5,000-$9,999	+52%	$3,271
$10,000-$19,999	+36%	$6,256
$20,000-$39,999	+23%	$12,760
$40,000-$99,999	+3%	$28,143
$100,000-$199,999	−9%	$58,554
$200,000-$499,999	−16%	$121,005
$500,000 and up	−31%	$654,904

All data for 1983.
[1]As defined here, income parity is achieved when the average family income of the farm families in the specified sales class matches the U.S. median family income. [2]This would have been the price increase necessary in 1983 to bring the average income of families operating farms in the $10,000-$19,999 sales class up to the U.S. median family income.

is likely to complain, but rather the taxpayer or the consumer. For several reasons, a parity price would give today's farmer a distinct advantage over the farmer of 75 years ago.

"Farms are much larger and much more productive now than they were in the early 1900's," says Teigen. "Corn yield per acre is 4 times the level in 1910-14, and milk production per cow is more than 3 times the base period level. Add in the larger farm size, and the average corn farm produces more than 21 times the corn per farm in 1910-14. Cotton farms produce 44 times the 1910-14 average."

Why are productivity and farm size relevant?

Because the parity concept is geared toward the maintenance of a living standard, yet the parity price formula ignores the impact that improved technology and larger farm size can have on farm income. It is detached from income mainly because it considers only the prices of inputs and farm products, not the levels of inputs used in production or the amount of commodities produced.

In effect, parity prices try to freeze the purchasing power of a bushel or pound of farm product at a constant level, so the same bushel will buy the same amount of inputs, even though the average farm is now producing many more bushels per unit of input than its counterpart of 1910-14.

Farmers have increased their living standards, and their purchasing power, by producing more with less—by becoming more productive and by expanding to capture economies of scale. They have not depended, says Teigen, on a guarantee that a bushel of corn will always have the same value.

In one sense, perhaps, farmers have been penalized by their greatly increased productivity, he acknowledges. Except for the war years and the early 1970's, the price trend has been toward a smaller percentage of parity each year.

"On the other hand," Teigen says, "few farmers would be willing to trade current prices on their present productivity or volume for a 100-percent parity price on the 1910-14 per-farm volume." A nearly $5 a bushel parity price for corn may sound appealing, but not on the 1910 average production of 530 bushels per farm. Even at today's $1.60 or $1.70 per bushel, an average 11,000-12,000 bushels per farm yields a lot more income.

Built-In Biases

Productivity, though, is not the only reason for the widening gap between parity prices and market prices. Another problem with the parity price calculations is their "built-in biases ensuring that parity prices increase more rapidly than actual market prices," says Teigen. "At the time, those who developed the parity index did their best to show how disadvantaged farmers were."

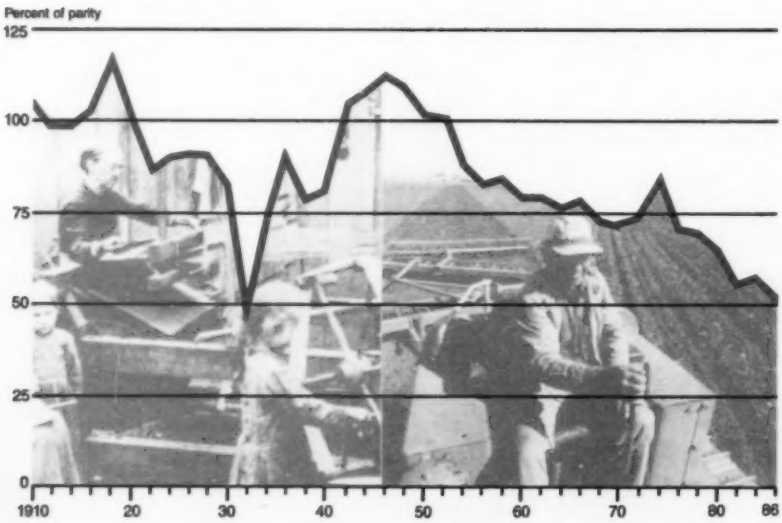
One example is the way the interest component of the parity index is calculated. It increases when interest rates rise, as would be expected, but it also increases whenever farmers buy more land on credit, whenever the value of land being put under mortgage rises, and whenever downpayment percentages drop. Thus, while interest rates have risen about 1½ times since 1910-14 (from about 5 percent to 12 percent), the formula for calculating parity results in a parity index that shows interest costs at 36 times the 1910-14 level, Teigen notes.

As he describes it, the whole notion that the parity ratio or parity prices can be used to return to conditions of 1910-14 is full of potential risk.

"Over the years, we have learned that prices for farm commodities need not be at parity levels to ensure efficient and profitable production," Teigen says. "Any attempt to restore prices to parity would attract more resources to agriculture than are needed to efficiently produce for current demand. American agriculture could no longer compete on world markets, and the federal government would have to strictly control production to avoid commodity surpluses."

The High and Low Points of the Parity Ratio Correctly Identify Some of Agriculture's Peaks and Valleys

But the Long-Term Downward Trend Falsely Implies a Deterioration in Farmers' Living Standards Over the Last 75 Years



What To Do About Parity

If parity prices are to be used as a basis for setting federal farm supports in the future, the major shortcomings in the parity price formula should be remedied, according to Teigen.

As currently calculated, the parity ratio and parity prices seem to tell us that farmers aren't nearly as well off as they were in 1910-14, and that their economic situation has been deteriorating for most of the last 75 years. "There is something fundamentally wrong," he says, "with an indicator that shows a steady decline despite the fact that farmers generally share a much higher living standard today than they did in the early 1900's."

Teigen and others have proposed a number of technical changes in the way parity prices are calculated. These include methods to more closely link parity prices to recent market prices, a change in interest calculations so that interest rates alone get reflected in the parity formula, and possibly an adjustment to factor in the increased productivity and output of the farm sector. Another proposal recommends a more recent period on which to base parity price calculations to replace 1910-14.

Beyond that, he suggests several possible alternatives to the parity standard, including a return to the original concept based on a parity in income, or standard of living, between the farm and nonfarm sectors.

"The problems of the 1930's were associated with the gap between the incomes of farmers and nonfarmers," he says. Parity prices did not fill that gap. In 1949, farm prices were at parity levels, yet the per capita income of people on farms was half that of the nonfarm population.

"By contrast, the farm families of today have incomes that, on average, match or exceed incomes in the nonfarm sector. The problem is the uneven distribution of income within the farm sector," he says.

If the goal is to ensure that all farm families have incomes at least equal to the U.S. median, then one approach, says Teigen, is a lump-sum direct payment, either to all farms or just to those with below-parity incomes. Even if a $10,000 payment went to all farms, the budget cost would be less than the current cost of today's farm programs. Based on recent figures, such a payment would bring the average income in every farm sales class up to the U.S. median family income, he says.

"Parity prices may have been a workable concept way back when we had a small-scale, homogeneous agriculture," says Teigen. "But a parity price support policy does not fit a situation in which the bulk of farm output originates on the largest half-million farms that can prosper even at market prices of less than 50 percent of parity."

And what about today's troubled farms, caught in the crisis of the 1980's? "Using their very real troubles to justify parity prices would do only one thing. It would enhance the incomes of the big farms that already earn incomes well in excess of the U.S. average," Teigen concludes.

"In a sense, we'd be using the troubles of some to justify benefits that would go mainly to others, without solving the first group's problems. That, to me, is what's unfair about parity prices." □

[Based primarily on information provided by economist Lloyd Teigen of the Agriculture and Trade Analysis Division, Economic Research Service.]

Parity an Obstacle to Farm Policy Reform

Why even bother to raise the controversial parity price issue today?

Because some people still see it as the answer to agriculture's problems, says economist Lloyd Teigen.

More than 50 years ago, the objective of farm policy was to push market prices back toward parity with 1910-14 levels, he says. As time passed, the parity formula was modified and adjusted, and price supports were set at certain percentages of parity. The percentages were slowly lowered and then turned into ranges to give the Secretary of Agriculture some discretion in setting supports.

"Today, the use of parity has greatly diminished to the point that the 1985 farm bill does not even mention the term," Teigen observes.

Parity prices are still calculated and still used. Currently, they are employed to administer marketing orders, and the parity index is used in formulas that determine support prices for shorn wool, tobacco, and quota peanuts.

These limited uses, however, are not Teigen's major concern. A greater concern, he says, is that parity remains the basis for setting federal price supports in the permanent farm legislation that's still on the books. Under current law, this legislation will automatically be reactivated if Congress fails to pass a new farm bill every 4 to 5 years as each temporary bill expires.

Furthermore, parity proposals regularly re-emerge, as they have recently, whenever a new farm bill is debated and whenever the farm sector has economic problems.

Teigen maintains that the strong popular appeal of parity presents a significant obstacle to farm policy reforms.

"In a sense, parity is the real threat that has forced lawmakers to avoid reverting to permanent legislation and yet to avoid rewriting it," he says. "It's the reason we keep having these temporary farm bills, because we can't seem to deal with it and put the parity ghost to rest. It keeps coming back, and it seems to stand as an obstacle to the development of a new foundation for farm policy to replace permanent legislation that is now about 40 years old."

If we avoid the issue today, Teigen warns, "parity will haunt the next farm bill debate, and the next, and the next."

Peanut Program One Example of Mandatory Controls

Mandatory production controls on the U.S. peanut crop have been in effect for many years. Is the program working? Would it work for other commodities?

Such questions are being asked because of increased interest in the possible use of mandatory controls on other crops. Some policymakers and farm organizations have suggested mandatory controls as a way of alleviating overproduction and low commodity prices.

Economists note that such controls on production might have positive benefits for certain groups but negative results for others. An explanation of how the peanut program works might be helpful in the continuing discussion of mandatory production controls.

"The peanut program separates domestic edible use from other uses, for pricing purposes," says Jim Schaub, an economist in USDA's Economic Research Service. "With other crops, such a separation might be difficult, or even meaningless."

Production controls are likely to result in higher prices, for producers and consumers, because of smaller supplies and the law of supply and demand. The peanut program has little impact on individual consumers because spending on peanuts is a small part of each consumer's budget. And everybody is accustomed to the prices, because the program has been in place for many years, Schaub says.

Mandatory production or supply controls, if implemented for other crops, might benefit certain sectors of the economy but hurt others. During the congressional debate over the 1985 farm bill, it was noted that such controls could increase farm income in the short run for included commodities, could decrease government program costs (if production controls kept production in line with use), and could reduce crop surpluses. But policymakers were concerned about the effects of such controls on export markets, import levels, input industries, the livestock sector, and consumer food costs.

Program benefits, under mandatory controls, would go largely to existing landowners, and subsequently it would be difficult for newcomers to enter farming. Per-unit production costs would rise, but farmland values also would be likely to increase. Livestock feed costs would be higher, and controls on livestock production might even be considered.

"Consumers bear the cost of peanut price supports."

In agribusiness, employment and utilization of facilities would be likely to fall, because of a lower volume of both inputs and agricultural products. (Such results might be true of marketing or production controls in general, not just of the type of controls existing in the peanut program, economists say.)

Most Programs Voluntary

Most major crops, such as wheat, corn, cotton, and rice, are subject to voluntary programs built around acreage bases and annual land set-asides. Tobacco is another crop with mandatory controls. The tobacco and peanut programs are mandatory based on growers' referendums.

"Consumers of peanuts bear the cost of supporting the price of peanuts," Schaub says. "We don't know what the price would be without the program, because peanuts have been under a government program for so long."

Since 1934, to be exact. A voluntary program was used for 15 years, then mandatory acreage allotments were in effect from 1949 to 1981. Since 1977, peanut growers have been under a two-price system and marketing quotas.

"Anyone may grow peanuts, but only producers with a share of the national poundage quota are allowed to sell directly for domestic edible use," Schaub says. ("Edible use" products, as defined for the peanut program, do not include peanut oil.)

The government loan rate for quota peanuts is presently four times the rate for "additionals," which are those that can be sold to be exported or crushed for oil. For both 1986 and 1987, the quota has been 1.355 million tons, the quota loan rate $607 a ton, and the loan rate for additionals $150 a ton.

The government program has kept acreage near 1.5 million since the early 1950's, but production has more than doubled because of yield increases.

Policymakers implemented a poundage quota and two-price system in 1977 because government expenditures had been increasing rapidly, a result of those yield increases, Schaub says. The program costs had averaged $30 million a year in the 1960's and $61 million a year in the 1970's. So far in the 1980's, the cost has been about $10 million a year.

Costs Affect Loan Rate

The peanut program requires annual adjustments in the quota loan rate if production costs (excluding land costs) increase. There was no rate increase for 1987, however, because production costs in 1986 were lower than in 1985.

Quotas have a built-in value, and farmers who own them can tap that value without raising peanuts. A quota can be rented to another farmer, for instance. Rents have been about $120 a ton in the Southeast, where yields can average more than a ton and a half per acre.

A grower can acquire a quota through purchase or leasing, and also might be able to obtain a quota by establishing a history of producing and marketing additional peanuts. When the overall quota is increased, or growers forfeit their quotas, a share of the increase goes to growers who have produced additionals in at least 2 of the preceding 3 years.

The loan rate for additionals is set low enough to ensure that the government suffers no loss from selling any peanuts that might be acquired through the loan program for additional peanuts, Schaub says. "A producer can't make money on the loan rate for additionals," he adds, although most growers selling additionals have a

(continued on page 14)

Pegs, Pods, and Peanuts—the Fruit That Ripens Underground

Peanuts are neither peas nor nuts, under our plant classification system. The "nuts" have an unusual way of growing—in a pod, on a peg, ripening underground.

After the butterfly-shaped yellow peanut flower is fertilized and wilts, a stalk-like structure called a peg grows from the base of the blossom. The tip of the peg contains the fertilized ovules, which will develop into the peanuts. The peg grows down to the ground and into the soil to a depth of several inches, where the peanuts begin forming.

To develop fully, peanuts require 4 or 5 months of warm weather, and 22 to 24 inches of rainfall (or irrigation) during the growing season. The best soil for growing peanuts is a well-drained sandy loam.

Peanuts are dug with a special wing-type plow, and allowed to dry in windrows for several days before being removed from the vines with a combine. After the pods are removed, the rest of the plant is often fed as hay to livestock.

The peanut plant, a legume, originated in South America. Peanuts were cultivated extensively by South American Indians before Europeans came to the Western Hemisphere. Ancient Inca burial sites have been found to contain jars of peanuts—food for the deceased in the afterlife.

In various parts of the world, peanuts are known as groundnuts, earthnuts, or goobers (from an African word, nguba).

Peanuts are the tenth largest U.S. cash crop, generating more than $1 billion in receipts annually.

Americans consume about 2 billion pounds (in-shell basis) of peanuts annually, or some 6.2 pounds (shelled) per person. Last year farmers received an average of nearly 29 cents a pound for their peanuts—quota and nonquota included. Consumers paid an average of $1.78 a pound for peanut butter during the first few months of 1987.

Out of a 1985 supply of 5.5 billion pounds of peanuts in this country, 2 billion pounds were used for food products, 1 billion pounds for export, 812 million pounds for crushing, and 826 million pounds for seed, feed and miscellaneous uses.

The United States is the world's third largest producer of peanuts, harvesting 1.68 million metric tons last year. India led with 5.90 million tons and China produced 5.88 million tons. West Africa is also a major peanut-growing area.

The United States is the leading exporter of peanuts, selling an average of 781 million pounds (354,000 metric tons) annually during the last 5 years. Our biggest customers are Canada, several Western European nations, and Japan.

About 55 percent of the world peanut crop is crushed for oil, although that proportion doesn't hold true in this country. Peanut oil is good for cooking because it is tasteless, does not transfer flavors, and can be heated very hot before it smokes. It is generally more expensive than other edible oils in the United States, but is preferred for cooking certain commercial products, such as potato chips.

World peanut production this year is expected to be slightly below last year's record of 20.5 million tons. China and Argentina are expanding production, and represent increased competition for the United States in the export market.

Of the 3.7 billion pounds of peanuts grown in this country in 1986, the Southeast region (Georgia, Alabama, Florida, and South Carolina) produced 64 percent, the Virginia-North Carolina region 20 percent, and the Southwest region (Texas, Oklahoma, and New Mexico) 16 percent.

Georgia produces almost half of the peanuts grown in this country. This amounted to 1.6 billion pounds, valued at $487 million, in 1986. Peanuts are very important to the Georgia economy, providing 15 percent of its agricultural cash receipts.

Nationwide, the harvested area of peanuts in 1986 was 1.54 million acres, up slightly from 1.47 million in 1985. The 1986 national average yield was 2,407 pounds per acre, down from 2,810 pounds a year earlier. The average price paid farmers in 1986 was 28.7 cents a pound, up from 24.4 cents in 1985.

U.S. Peanut Production, Exports, and Prices Have Increased Since 1980, But Not Steadily

	Production	Food use	Exports	Crush	Farm price
		million pounds			*¢/lb.*
1980/81	2,303	1,465	503	446	25.1
1981/82	3,982	1,696	576	573	26.9
1982/83	3,440	1,849	681	342	25.1
1983/84	3,296	1,856	744	387	24.7
1984/85	4,406	1,911	860	625	27.9
1985/86	4,123	2,023	1,043	812	24.4
1986/87[1]	3,701	2,045	725	475	28.7

All data based on August 1-July 31 marketing years. [1]Forecast as of July 1987.

quota and depend mostly on quota prices. Also, additionals that go under loan can enter the domestic edible market later, if a premium is paid. In years when sales of additionals placed under loan more than cover the expenses of the loan program, growers receive further payments.

In recent years, market prices have generally been above the support price for quota peanuts, and the government is usually able to dispose of acquired stocks at no loss, Schaub explains.

The U.S. peanut program also includes a limit on imports, to protect domestic peanut prices. Since 1953, that quota has been 1,000 tons a year. In 1980, however, when a severe drought reduced U.S. production by 42 percent, the import limitation was eased and 200,000 tons were imported.

Growers Help Run the Program

Growers' associations in the three major U.S. peanut-growing regions serve as agents for USDA's Commodity Credit Corporation (CCC), operating the price support loan program, keeping marketing records, and arranging warehousing.

It is difficult to estimate what the price of peanuts would be if there were no government program. A possible approximation is the "contract additionals price"—the amount that U.S. producers get for additionals. For 1986/87, the contract additionals price was 19 cents a pound and the quota loan rate was 30.37 cents a pound—a difference of more than 37 percent. Because of other factors, the price in the absence of a government program would not necessarily be that low, Schaub says. But if prices were lower, consumption would be likely to increase.

What would happen to U.S. peanut production if the major trading nations—as has been proposed—were to agree to dismantle trade barriers and reduce agricultural subsidies?

Schaub notes that the U.S. peanut program includes no direct subsidies or deficiency payments, but rather marketing quotas, import restrictions, and guaranteed prices under loan rates.

Without the protections U.S. producers have come to depend on, they might have difficulty adjusting to a completely open market. Consumers and processors would no longer be restricted to U.S. sources for edible peanuts, so they would see changes as well. However, Schaub says, "Compared with crops like corn, soybeans, and wheat, there's not a lot of trade in peanuts, and there has been no clamor about ending restrictions on that trade." Thus, the issue has not been studied to any extent. □

[Based primarily on information provided by Jim Schaub of the Commodity Economics Division, Economic Research Service.]

American Kids Know What's Good: Peanut Butter

Peanut butter is an all-American food, but doesn't arouse a lot of interest among people of other countries.

Americans consume an average of 6.2 pounds of peanuts and peanut products per year (not including peanut oil). The breakdown of that total is 2.7 pounds of peanut butter, 1.5 pounds of salted peanuts, 1.2 pounds in candy, and the rest in a variety of other food items.

Peanuts are nearly 30 percent protein, more than dairy products, eggs or some kinds of meat and fish. They have more calories than sugar.

George Washington Carver, a botanist at Tuskegee Institute in Alabama, developed more than 300 uses for peanuts in the early years of this century. He encouraged Southern farmers to turn to peanuts when the boll weevil severely limited cotton yields.

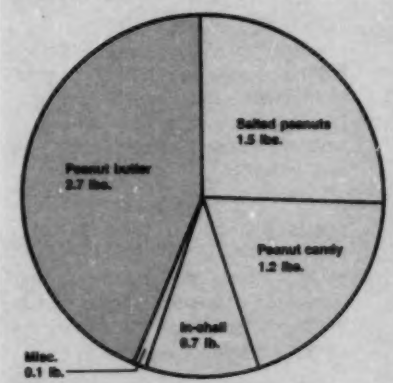
Today, peanuts are used in such products as shampoo, shaving cream, lipstick, soap, paint, explosives, paper, wallboard, and kitty litter.

Peanut butter manufacturers say their product is about 30 percent protein, and 5 percent carbohydrate. By law it must be at least 90 percent peanuts. Additives put in peanut butter to improve smoothness, spreadability and flavor include dextrose, honey, corn syrup, salt and vegetable oil.

Legend has it that peanut butter was invented by a St. Louis physician in about 1900 as a health food for invalids. But there is evidence that South American Indians made a similar food product several thousand years ago.

The peanut butter and jelly sandwich has become an American tradition. Peanut growers, through promotional efforts by their organizations, are trying to help the rest of the world find out what a treat it is.

Nearly Half of the Peanuts Eaten by Americans Are in the Form of Peanut Butter



Annual consumption
6.2 lbs. per capita

Scandinavians Like U.S. Foods

Dozens of U.S. food products are receiving a warm reception in three nations that straddle the Arctic Circle.

Sweden, Norway, and Finland have a combined population of only around 17 million. Yet their high per capita incomes, small family sizes, and American-like tastes for fresh fruits and vegetables, processed convenience foods, pasta, poultry, ethnic dishes, and snack foods are opening the door of opportunity for many U.S. food exporters.

Together, the three nations bought an average of $192 million worth of food per year from the United States in 1981-83. Some of the best sellers were raisins, prunes, lettuce, onions, apples and pears, frozen orange juice, potato granules, long grain rice (parboiled), popcorn, seafood products, almonds, peanuts, and catsup.

Of course, there are obstacles the American supplier must face. Competition for these markets is tough, particularly from the European Community. Moreover, import barriers protect Swedish, Norwegian, and Finnish products—such as apples and pears—whenever locally produced supplies are available to meet demand. Rules governing product quality, additives, and labeling are also strict.

On the other hand, the interest in American foods is strong, and the business people can usually speak or correspond in English. U.S. food exporters can often determine whether their products have promise simply by contacting the purchasing offices of the few large enterprises that control most of the food distribution in these nations.

The author of this report, economist Harold McNitt, talked to business and government officials in all three countries as part of his research. These discussions yielded special insights into what's hot, and what's not, among Nordic consumers and food firms.

McNitt shares these insights as he provides a broad introduction to food production, demand, and distribution in the three countries. He also offers a brief "how-to" guide for the U.S. food exporter, with listings of USDA services to American exporters, business practices in each of the nations, and addresses and telephone numbers of their government import agencies and food distribution firms.

Exporting U.S. Food to Sweden, Norway, and Finland *by Harold McNitt. (Published June 1987; 52 pages of text and tabular data; GPO Stock No. 001-019-00517-3; $3.00.)*

Parity, Fairness Not Synonymous

Parity prices are "obsolete indicators" of the well-being of farmers, says economist Lloyd Teigen.

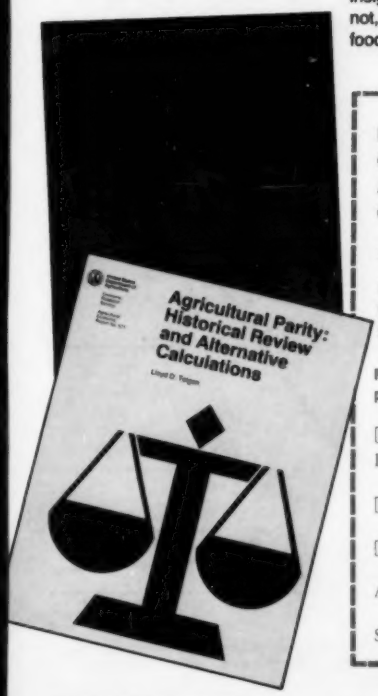
"Parity," he explains, "is an equity concept rooted in the desire for fair and just treatment of agriculture in relation to the rest of the economy."

This equity concept was translated into a parity price measure, and parity prices became part of agricultural policy. They have survived in farm legislation for more than half a century.

"But times have changed," Teigen notes, "and the fairness of past relationships, which fit the circumstances of the 1930's, is absent in the 1980's." He goes on to show how changes in the structure, income distribution, productivity, and size of farms are ignored in parity price calculations.

This report presents a historical review of parity, a look at past studies, and the case for updating the parity price formulas or adopting alternative standards of parity. For more information on Teigen's analysis, see the article on page 8 of this issue.

Agricultural Parity: Historical Review and Alternative Calculations *by Lloyd Teigen. (Published June 1987; 78 pages of text and tabular data; GPO Stock No. 001-019-00521-1; $4.00.)*



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Even Mideast Trouble Spots Offer Export Opportunities

In the competition for markets, U.S. exporters must seek out opportunities even in the more troubled parts of the globe. Trade goes on, and often thrives, in the midst of political tensions and conflict. That's true in the Middle East, where three of the twenty largest markets for American farm products are now located.

In the following article, economist Fawzi Taha of USDA's Economic Research Service looks at eight of the small to midsize Mideast nations. A few (Syria, Jordan, Kuwait, and war-torn Lebanon) are prominent in recent headlines, the others less so. All share the Arabic language, yet they are remarkably diverse in their economies and political systems. Relations with the United States vary, too, from friendly to cool, and internal conditions range from civil turmoil to a calm, oil-rich stability.

Within this diversity, the American exporter may face communication problems, political obstacles, unfamiliar customs and tastes, and, perhaps, occasional hazards. But there are also rewards for the supplier with the right product at the right terms. Fawzi Taha explains.

American farm exporters who focus on the Middle East's largest markets, such as Saudi Arabia, Egypt, and Iraq, may be overlooking some sales opportunities in the smaller nations of the region.

Together, eight smaller countries—Kuwait, the United Arab Emirates (UAE), Jordan, Lebanon, Syria, Oman, the Yemen Arab Republic, and the People's Democratic Republic of Yemen—spent $5.7 billion on agricultural imports from all sources in 1985. That's about 20 percent more than the amount spent by Saudi Arabia, the area's single largest importer.

Although each of the eight buys some American farm products, the United States has been losing ground to rival exporters. The EC's share of these markets rose from 19 percent in 1975 to a high of 28 percent in 1980, before settling back to about 22 percent in 1985. Meanwhile, the U.S. share slipped from 10 percent to 6 percent.

The total value of agricultural imports by these nations tripled between 1975 and 1985. U.S. sales doubled over the period, while the EC's sales rose about 3.5 times.

If the past is any guide, these markets will continue to grow. Their total farm product purchases from all suppliers climbed from nearly $1.9 billion in 1975 to a record $6.0 billion in 1984. Value dropped in 1985 and again in 1986, but largely because of lower world commodity prices, the oil glut, and reduced demand for oil workers in Kuwait, the UAE, Saudi Arabia, and elsewhere. Several of the nations send workers to their larger, oil-producing neighbors. The money the workers send back to their families provides much of the foreign exchange currency needed to pay for imports.

Since the early 1970's, the demand for food and other agricultural products has increased sharply in these eight nations.

For American farm products, however, the trouble began before 1985. Sales declined in 4 of the 5 years following the record 1980 season, when $507 million worth of U.S. agricultural exports went to the eight Mideast nations. The 1985 U.S. export figure of $356 million was the lowest since 1978. Available data for 1986 shows a further decrease, but early 1987 brought some recovery in U.S. sales, reflecting increasing shipments under the Export Enhancement Program, especially to the Yemen Arab Republic and Jordan.

Although the EC's sales have held up better in recent years, it too has suffered from increased competition. The wealth of the Middle East has attracted exporters from Asia, Latin America, Eastern Europe, and the Middle East itself. Other major suppliers to the region now include Australia, Brazil, Thailand, India, Pakistan, Hungary, Bulgaria, Singapore, and Turkey. And last year Saudi Arabia emerged as an important wheat exporter to Jordan, the Yemen Arab Republic, Kuwait, the UAE, Oman, and others outside the eight nations profiled here.

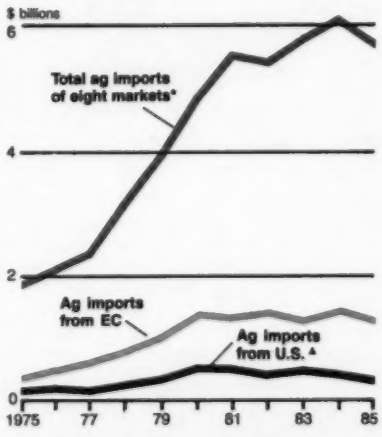
Surging Food Demand

Since the early 1970's, the demand for food and other agricultural products has increased sharply in the eight nations. Demand has been spurred by population growth, rising per capita incomes, unfulfilled demands for better diets, and generous government subsidies for basic food items. Petroleum fueled the income growth for the three oil-producing nations—Kuwait, Oman, and the UAE. For the other five, oil had an indirect role by providing relatively well-paying jobs within the region and large remittances sent home by the migrant laborers.

Food demand appeared to stabilize in 1981-84 before declining slightly in 1985. The slump in oil prices was just one of several reasons, but import demand is expected to rebound again during the years ahead.

Even when weather is on its best behavior, local agricultural production does not come close to meeting the food needs of these nations. Dependence on imports ranges

When These Mideast Markets Were Growing Rapidly, U.S. Farm Exports Didn't Keep Pace



*Includes Kuwait, the UAE, Jordan, Lebanon, Syria, Oman, and the two Yemens. ▲ Includes manufactured tobacco.

from around 90 percent in Kuwait to 50 percent in Jordan and 30 percent in Syria.

Moreover, local production fluctuates substantially from year to year because agricultural output depends heavily on rainfall, especially in Jordan, Syria, and the Yemen Arab Republic. In these countries, irrigation is limited to 10 or 20 percent of total acreage.

Major agricultural imports of the region include wheat, wheat flour, rice, corn, barley, oil meals, poultry, and dairy products. Others are beef, live animals, sugar, beans, lentils, preserved vegetables, canned fruits, fruit juices, vegetable oils, and fresh fruits and vegetables.

Competition between the United States and the EC is strong for some items, such as wheat, wheat flour, and several high-value products, including meats, dairy products, and processed foods. Fresh fruits and vegetables come mainly from nearby Arab countries and Turkey.

The United States outsells the EC in rice, but Thailand and Pakistan generally dominate that market.

The EC has been very successful in selling processed and high-value products, including beef, cheese, canned fruit and fruit juices, sugar, butter, dry and condensed milk, and a variety of similar products. Australia, Turkey, and Eastern Europe are the major suppliers of mutton and lamb, the preferred red meats, as well as live sheep, which are imported in large numbers to ensure their slaughter according to Islamic tradition.

U.S. exports tend to be concentrated among the lower value bulk products, raw or semiprocessed, such as wheat, flour, corn, and rice. Some other U.S. products that have found buyers are soybean meal, vegetable oils, canned nuts, and some processed vegetables, concentrated fruit juices, and beef.

Total imports of wheat and wheat flour by the eight nations rose from 1.4 million tons in 1975 to 3.2 million in 1985. U.S. exports accounted for 23 percent, or 330,000 tons, in 1975, and climbed to a peak of 835,000 tons in 1983 as the United States managed to hold onto roughly a quarter of the fast-growing orders. The amount dropped to 740,000 tons in 1984 and then slid to only 280,000 tons, or 9 percent of the market, in 1985. The figure rose slightly to 303,000 tons in 1986.

In the last few years, the United States lost its wheat market in Syria and Jordan, but made some gains in the Yemen Arab Republic in 1986.

Australia, the region's dominant wheat supplier, increased its wheat shipments to the eight nations from 387,000 tons (a 27-percent share of the market) in 1975 to nearly 1.2 million tons (a 36-percent share) in 1985. Australia's proximity to these markets and lower transportation costs contributed significantly to its success. Other, smaller sources of wheat and wheat flour to the area include Canada, Argentina, and, recently, Saudi Arabia.

Mideast imports are often controlled and managed by government agencies or trade organizations responsible to the government. This is the case in Syria, Jordan, Lebanon, Kuwait, and the two Yemens. A large share of total imports is made up of grains and other essential food items, which are subsidized for retail sale by the government.

An exporter who can offer a low price often has an advantage, but credit terms and political considerations may be equally important to the importing government or trade agency.

In the UAE and Oman, the private sector dominates the import market, but the government is still involved because most basic foods come under state subsidies. Small quantities of virtually every farm commodity entering world trade are imported by the UAE because of its free trade policy and high standard of living (in 1985, it had the world's highest per capita income).

U.S. Agricultural Exports Show a Declining Trend in These Markets

	1983	1984	1985
	In $ millions		
Kuwait	101	85	76
UAE	80	55	98
Jordan	80	99	50
Lebanon	108	96	56
Syria	19	38	45
Oman	12	11	12
N. Yemen	74	36	16
S. Yemen	2	3	3
Total	**476**	**423**	**356**

North Yemen is the Yemen Arab Republic, and South Yemen is the People's Democratic (Socialist) Republic. Figures include manufactured tobacco.

Prospects for a Bigger Share

With its large share of the market and broad mix of exports, the EC is America's major competitor in sales of a wide range of farm products. Competition from the EC is especially keen when the trade involves commodities that the Common Market has in surplus. These items are promoted through export subsidy programs, which slash the high internal EC prices to attractive levels. The programs have been very effective in selling EC products, and some of Europe's past sales gains have probably come at U.S. expense.

The United States took new actions to promote its exports in May 1985, with the announcement of the Export Enhancement Program. Under the program, the government provides surplus commodities to U.S. exporters to allow them to reduce prices to specified markets.

U.S. agricultural export policy also includes credit and aid programs, such as P.L. 480, GSM-102, GSM-103, and others. Among the eight Mideast countries profiled here, only Jordan and the Yemen Arab Republic have participated greatly.

The Export Enhancement Program, however, seems to have increased U.S. sales to some of these nations and prevented a fur-

ther deterioration in sales to a few others. At least four of the eight have purchased U.S. commodities through the program. Kuwait and Oman recently used the program to buy U.S. dairy cows.

Credit is still important, more so to the Yemen Arab Republic and Jordan than to the oil-rich countries of Kuwait, Oman, and the UAE. Special concessional terms, or medium to long-term credit, may make or break a sale.

The keys to increased U.S. sales to the region probably include a mix of strategies—and a long-term commitment by American exporters. To compete, U.S. firms may have to offer generous credit terms, as well as lower prices to compensate for the high transportation costs from the United States.

Reductions in U.S. prices under the 1985 farm bill may be at least partly responsible for some recent U.S. sales gains to the region.

U.S. exporters may also need to pay more attention to the specific needs of these markets, particularly in the area of high-value foods where the EC has a wide advantage. Arabic countries often have special processing, labeling, and packaging requirements, and efforts to meet these requirements—when combined with effective promotion of U.S. products—can result in sales of livestock and dairy products and possibly many other items.

Although the competition is unlikely to ease up, import demand for food and other agricultural products is moving upward in these nations at a pace well ahead of their efforts to expand their own farm production. This creates opportunities for exporters who are positioned in these markets and who can offer the right products at the right terms. □

[Written by economist Fawzi Taha of the Agriculture and Trade Analysis Division, Economic Research Service.]

Selling to Arab Countries Means Doing Careful Homework

Although U.S. firms often delegate market development to European subsidiaries, many firms haven't made a committed effort to expand Mideast markets for American food products, says ERS economist Fawzi Taha.

A firm must carefully weigh the economics, he adds, because a serious effort often requires a long-term investment. It is a mistake, he explains, to assume that because a product, or a particular packaging or formulation, sells well in the United States, it will also sell well in the Mideast. The countries have individual needs and preferences, some dictated by taste or tradition, and some by Islamic law.

An exporter who meets those needs may be rewarded with a loyal customer. For example, under certain trade arrangements, Islamic inspectors are sent to processing plants in nations that supply them with mutton. The inspectors make sure the animals are slaughtered in the prescribed manner. In recent years, some U.S. slaughterhouses have begun to offer special processing of orders when needed to meet the Islamic requirements.

Why has the European Community been successful in this region? EC subsidies and a long history of commercial ties have helped. The explanation, however, doesn't end there, according to economist Taha.

"Food firms, farmer cooperatives, and other organizations in the European Community visit and research these markets. They ask questions and conduct taste tests, they spend time and money to find out what is needed and how it should be processed, packaged, and delivered. They maintain a presence in these markets."

In one case, he reports, a European trade delegation found that the demand for cheese wasn't being met by the imported cheeses that were available in these markets. Today, feta cheese is manufactured in Denmark and shipped to the Mideast.

"Some American firms tend to depend mostly on television and newspaper advertising. Without a direct, active presence in the market, it isn't enough," he says.

"The Europeans have made a long-term investment in these markets because they see it as part of a long-term relationship. And, don't forget, the European Community is twelve countries, not one. They compete quite seriously among themselves for sales."

A U.S. firm seeking trade information on the Mideast can begin with some basic research. The research, Taha advises, should go beyond strictly commercial trade data to information on the people, their history, customs, and preferences.

For the serious exporter investigating specific opportunities, one source of information is the agricultural trade offices of USDA's Foreign Agricultural Service. Three offices in the Mideast region are listed below.

For Kuwait, the United Arab Emirates, Oman (and Qatar): Agricultural Trade Office, American Embassy, FPO New York, NY 09526; Telex 9398 USATO BN.

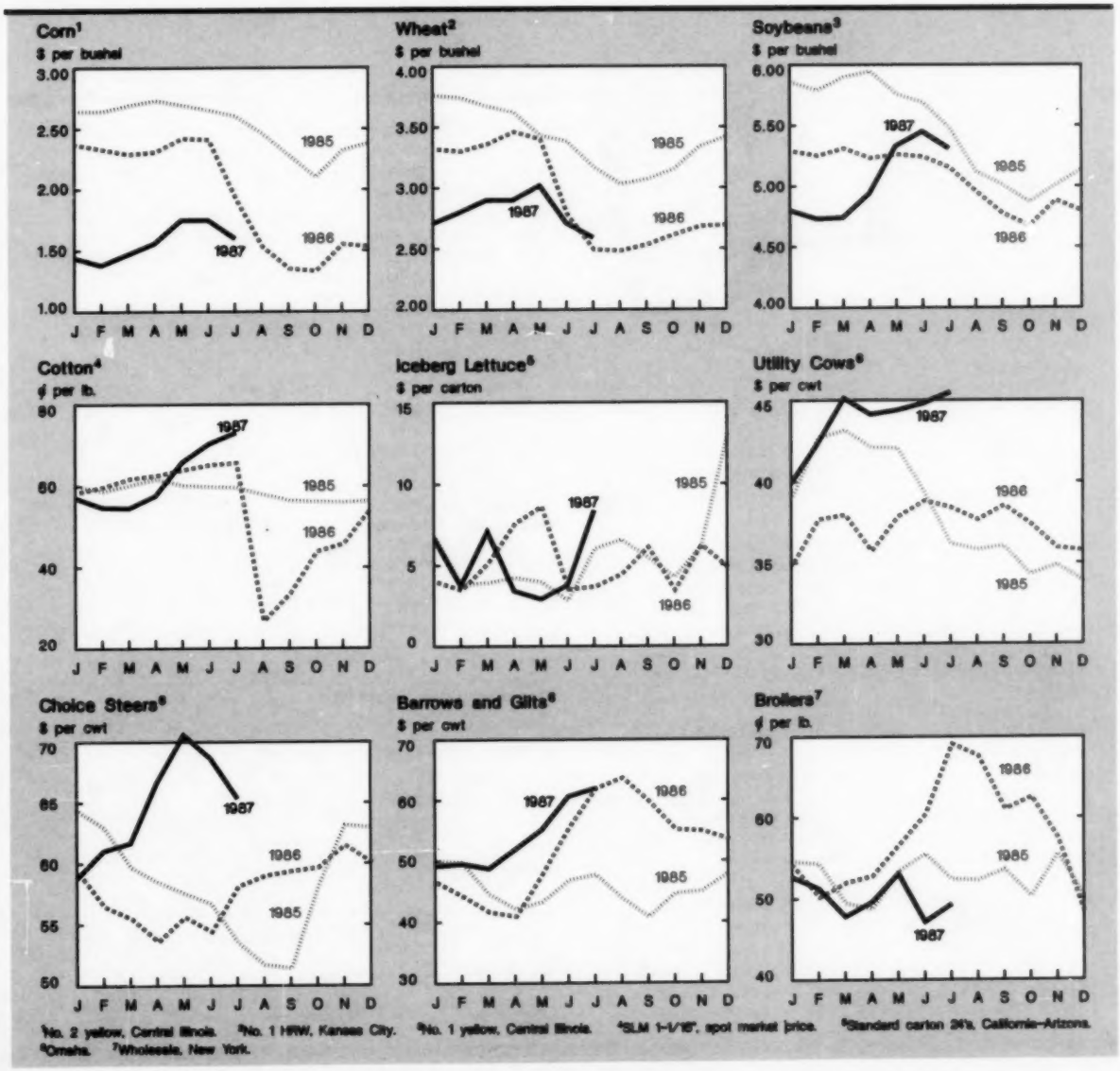
For Jordan: Agricultural Trade Office, Baghdad, U.S. Department of State, Washington, DC 20520; Telex 212287 USINT IK.

For Syria and Lebanon: Agricultural Trade Officer, CG Istanbul, APO New York, NY 09380-1000; Telex 24077 ATAT RAU.

FARMLINE TRENDS

Monthly Price Monitor

USDA's July index of farm prices decreased 2.3% from June but was 2.4% above its year-earlier level. Corn dropped to $1.60 per bushel, while wheat was the lowest this year at $2.59. Soybeans lost 14¢ to $5.31 per bushel, while cotton climbed to 73¢ per lb. In the meat animals area, utility cows inched up to $45.49 per cwt, and choice steers fell to $65.38. Barrows and gilts rose to $61.97, matching the year-earlier level. Broilers brought 49.3¢, almost 20¢ per lb. less than a year earlier. All prices shown are monthly averages.



[1]No. 2 yellow, Central Illinois. [2]No. 1 HRW, Kansas City. [3]No. 1 yellow, Central Illinois. [4]SLM 1-1/16", spot market price. [5]Standard carton 24's, California–Arizona. [6]Omaha. [7]Wholesale, New York.

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